

Federal Housing Finance Agency
Office of Inspector General



FHFA's Controls Over Legal Service Payments Were Generally Effective But Did Not Ensure Compliance With All Contractual Requirements

..... EXECUTIVE SUMMARY

PURPOSE

The Federal Housing Finance Agency (FHFA or Agency) procures litigation assistance and consulting services from external law firms on a variety of matters. FHFA paid approximately \$15.5 million for contracted legal services from April 2024 through March 2025 (scope period of this audit).

We conducted this audit to determine whether FHFA implemented effective controls to ensure that payments for legal services were made in accordance with applicable federal laws and regulations, policies and procedures, and contractual requirements.

RESULTS

We determined that FHFA's controls over payments for legal services were generally effective. That is, payments were made in accordance with applicable federal laws and regulations, policies and procedures. However, we noted instances in which controls did not effectively ensure compliance with contractual requirements. In one instance, we identified a legal services invoice that reflected incorrect billing rates and was paid in an incorrect amount. FHFA identified a second invoice with the same billing rate error. Combined, these two invoices resulted in overpayments in September 2024 of approximately \$5,208 for contracted legal services during our audit scope (see Appendix II for Schedule of Questioned Costs). In both instances, the Invoice Approver did not ensure that the billed amount met contract specifications. Furthermore, neither the FHFA's Oversight Procedures for Invoice and Payment Procedures nor the training materials specifically mention or outline procedures for validating billing rates. Accordingly, we question costs related to overpayments of \$5,208 that violated the contract's terms governing the expenditure of funds. When the Invoice Approver does not ensure the billed amount meets contract specifications, overpayments may continue to occur, resulting in waste of Agency funds.

We also found two instances in which FHFA did not perform control procedures designed to prevent future late payments. We further determined that FHFA's Oversight Procedures for Invoice and Payment Procedures did not define the timeframes for performing such controls. Delayed follow-up increases the risk of repeated late payments and unnecessary costs.

RECOMMENDATIONS

We made six recommendations to address our two findings. In a written response, FHFA management agreed with our recommendations.

This report was prepared by Jim Lisle, Audit Director; April Ellison, Audit Manager; Marco Uribe, Auditor-in-Charge; and Jianxun Pan, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report. This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov, and www.oversight.gov.

James Hodge

Deputy Inspector General for Audits /s/

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ABBREVIATIONS

APM	Acquisition Procedures Manual
ARC	Bureau of the Fiscal Service, Administrative Resource Center
COR	Contracting Officer's Representative
DPIE	FHFA Division of Public Interest Examinations
Enterprises	Fannie Mae and Freddie Mac
FAR	Federal Acquisition Regulation
FHFA or Agency	Federal Housing Finance Agency
Fiscal Service	Department of the Treasury, Bureau of the Fiscal Service
GAO	Government Accountability Office
IPP	Invoice Processing Platform
OBFM	Chief Operating Officer's Office of Budget and Financial Management
OCFO	FHFA Office of the Chief Financial Officer
OGC	FHFA Office of General Counsel
OIG	FHFA Office of Inspector General
OPPR	FHFA Office of Planning, Performance, and Risk
QAR	Quality Assurance Review
SOC	System and Organization Controls
U.S.C.	United States Code

BACKGROUND

FHFA's Invoice Payment Process

FHFA procures goods and services for its operations in accordance with its Acquisition Policy and Acquisition Procedures Manual (APM).¹ A significant portion of FHFA's procurement expenditures is incurred to obtain legal services for litigation and consulting on a variety of matters such as regulatory advice with respect to the regulated entities,² banking law, securities law, and federal employment law. From April 1, 2024, through March 31, 2025, FHFA paid approximately \$15.5 million for contracted legal services. Of this amount, legal services totaling approximately \$15.3 million (98.7 percent) was procured by FHFA's Office of General Counsel (OGC). The remaining amount (1.3 percent) was for legal services procured by FHFA's Division of Public Interest Examinations (DPIE) (approximately \$157,000) and FHFA's Division of Housing Mission and Goals (approximately \$38,600). In March 2025, contracts for legal services acquired by DPIE and FHFA's Division of Housing Mission and Goals were terminated for convenience. FHFA officials told us that all remaining legal services contracts were under the purview of OGC.

FHFA's Office of the Chief Financial Officer (OCFO)³ is responsible for Agency procurements and contract administration, including the processing of vendor invoices for payment. Its Oversight Procedures for Invoice and Payment Procedures (most recently updated July 17, 2024), outlines the steps associated with the receipt of vendor invoices and the procedures for processing payments for FHFA, and to ensure that system of internal control is followed to mitigate the potential for fraud, misuse, and delinquency. OCFO uses the third-party Invoice Processing Platform (IPP) system to manage vendor invoices. IPP is provided to FHFA

¹ FHFA, as an independent, non-appropriated agency, is not subject to the Federal Acquisition Regulation (FAR), the primary regulation for use by all executive agencies in their acquisition of supplies and services with appropriated funds. However, FHFA states in FHFA Policy No. 503, Acquisition Policy (June 27, 2011) that it follows the FAR on a voluntary basis, except for flexibilities set forth in its APM and supplementary FHFA memoranda.

² FHFA serves as regulator and supervisor of several entities: Fannie Mae and Freddie Mac (the Enterprises); U.S. Financial Technology, LLC, previously known as Common Securitization Solutions, LLC, an affiliate of each Enterprise; the Federal Home Loan Banks (FHLBanks); and the FHLBanks' fiscal agent, the Office of Finance. Collectively, the Enterprises, U.S. Financial Technology, LLC, and the FHLBanks are the regulated entities.

³ Prior to December 2024, FHFA's OCFO was known as the Office of the Chief Operating Officer's Office of Budget and Financial Management (OBFM).

under an agreement with the Administrative Resource Center (ARC) – a shared service provider operated by the Department of the Treasury’s Bureau of the Fiscal Service (Fiscal Service).⁴

When FHFA awards a legal services contract to a vendor, an IPP account is established for that vendor; the vendor then submits invoices to FHFA through IPP for goods or services provided under the contract, task order, or modification (hereinafter, collectively referred to as contract).⁵ A Contracting Officer’s Representative (COR) or Invoice Approver is responsible for reviewing and approving invoices for payment in IPP. A COR is an FHFA employee, designated in writing by the Contracting Officer to perform certain technical functions for a specific contract, agreement, task order, or delivery order, including inspection and acceptance of supplies or services. CORs must complete specific technical training to achieve and maintain the COR certification required for their appointment. According to the APM, an Invoice Approver may be designated in a contract with lower dollar value or perceived risk. The Invoice Approver has the same authorities and responsibilities as a COR but does not require a formal appointment or certification.⁶ Once an approval is made in IPP, ARC processes the payment to the vendor.

Office of Planning, Performance, and Risk’s Quality Assurance Review and Corrective Actions

In March 2024, FHFA’s Office of Planning, Performance, and Risk (OPPR) issued a report on its targeted Quality Assurance Review (QAR) of the OGC’s payment of legal expenses.⁷ OPPR reviewed a sample of invoices for three vendors (external law firms) for fiscal years 2021 to 2023. The QAR identified, among other findings, instances of improper payments made because of incorrect billing rates on legal services invoices.

In April 2024, OPPR briefed OGC and OBFM management on the issues identified in the QAR. OPPR officials also discussed the results of the review with Senior Management officials from other divisions during the quarterly Audit, Risk, and Control Committee meeting in

⁴ FHFA entered into a service level agreement with ARC which defines the level of service expected from the vendor, laying out the metrics by which service is measured, as well as remedies or penalties if the vendor does not achieve agreed upon service levels.

⁵ A modification is a written alteration of the contract, accomplished either unilaterally by the Contracting Officer or by mutual agreement of the parties to the contract. A task order contract is a contract for services that does not procure or specify a firm quantity of services (other than a minimum or maximum quantity) and that provides for the issuance of orders for the performance of tasks during the contract’s period of performance.

⁶ In general, contracts that exceed the simplified acquisition threshold require a COR be appointed in writing. However, in some cases, the Contracting Officer may choose not to appoint a COR for noncomplex procurements above the simplified acquisition threshold (for fiscal years 2024 and 2025, the simplified acquisition threshold was \$250,000), such as for the purchase of supplies or services that have minimal deliverables. In those circumstances, a formal appointment and acceptance letter is not required.

⁷ OPPR, *Quality Assurance Review for Payment of Legal Expenses* (March 26, 2024)

October 2024. Further, OPFR officials told us that they briefed the former FHFA Director, along with other Senior Officials, on the matter in connection with FHFA’s 2024 Statement of Assurance.⁸ As a result of the QAR, FHFA directed its largest vendor to conduct a targeted review of invoices similar to those on which errors had been identified. The vendor’s review found additional instances of incorrect billing rates which were then corrected. Additionally, FHFA’s OGC implemented a tiered eReview process for litigation invoices in November 2024. OGC attorneys (called Tier 1 or Tier 2 attorneys) are formally assigned to specific legal matters for which legal services are acquired. These Tier 1 and Tier 2 attorneys review the invoices submitted to assist the COR in determining whether the invoice reflects (1) the justifiable number of hours spent on task, and (2) the vendor’s compliance with use of the correct labor categories and rates for each individual timekeeper.⁹

Prompt Payment Act

The Federal Prompt Payment Act¹⁰ requires federal agencies to pay their bills and vendor invoices on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. Fiscal Service uses IPP to generate its Monthly Metrics reports to identify invoices that were paid late (thus incurring Prompt Pay interest),¹¹ and improper payments (i.e., payments made incorrectly or in the wrong amount). An FHFA Senior Accountant, or designee, reviews these reports and, if late or improper payments are identified, must reach out to the COR or Invoice Approver requesting: (a) a written statement on why the invoice was paid late or improperly paid, and (b) written corrective actions to be taken to prevent any future late payment or improper payment issues. For instances involving improper payments, the FHFA Senior Accountant, or designee, is required to notify the COR’s or Invoice Approver’s supervisor to prevent future instances of improper payment.

⁸ The Statement of Assurance, required by Federal Managers' Financial Integrity Act, is a summary of an agency’s process for assessing internal control effectiveness and resulting material weaknesses and corrective action plans as of September 30 of a given fiscal year.

⁹ OGC, Process for Litigation Vendor Invoice Review (March 26, 2024) – outlines procedures for OGC’s vendor invoice review and approval process.

¹⁰ See [31 United States Code \(U.S.C.\) chapter 39](#).

¹¹ The Prompt Payment Act generally requires payment within a certain timeframe, often 30 days, after the agency receives a valid invoice or accepts the goods or services. Failure to pay on time can result in interest penalties for the agency on the outstanding amount.

OBJECTIVE AND SCOPE

The objective of our audit was to determine whether FHFA implemented effective controls to ensure that payments for legal services were made in accordance with applicable federal laws and regulations, policies and procedures, and contractual requirements. The audit scope comprised payments for contracted legal services for the period April 1, 2024, through March 31, 2025. For details on our methodology see Appendix I.

RESULTS

We determined that FHFA’s controls over payments for legal services were generally effective. That is, payments were made in accordance with applicable federal laws and regulations, policies, and procedures. However, we noted instances in which the controls did not effectively ensure compliance with contractual requirements. Specifically, we found that:

- All 30 legal services invoice payments in our sample were made (a) to a vendor appropriately established in IPP; (b) under a formal, signed contract; (c) after services were accepted by the COR or Invoice Approver in a timely manner; and (d) after the invoice was approved by the authorized COR or Invoice Approver. Furthermore, 29 of the 30 invoices in our sample were paid in the correct amount. However, one invoice used incorrect billing rates (see Finding 1).
- The five CORs assigned to approve 29 of the 30 legal services invoices in our sample were designated in writing by the Contracting Officer and maintained their certification during the audit scope period. The Invoice Approver assigned to the contract with invoice errors, noted above, was designated in the contract.
- OGC reviewed all seven invoices in our sample that were subject to the tiered eReview process that was implemented in November 2024.
- The five CORs and one Invoice Approver monitored the expenditure of funds against the contract ceiling associated with the legal services invoices in our sample.
- FHFA management reviewed the System and Organization Controls (SOC) 1 reports for ARC and the IPP system for the period July 1, 2023, to June 30, 2024. These reports concluded that the ARC and IPP’s controls were suitably designed and operated effectively.
- FHFA’s Accounting and Reporting Branch personnel reviewed the Fiscal Service Monthly Metrics reports for late or improper payments made each month within the audit

scope.¹² However, staff did not perform all required follow-up steps when late payments were identified (see Finding 2).

We found that FHFA personnel did not consistently follow the Oversight Procedures for Invoice and Payment Procedures. As noted in Finding 1 below, the Invoice Approver did not ensure that billed amounts met contract specifications leading to overpayments of \$5,208. Further, FHFA did not perform control procedures designed to prevent late payments in the future as detailed in Finding 2. The risk of incurring unnecessary costs increases when controls are not performed in accordance with policies and procedures.

Finding 1: FHFA's Controls Did Not Prevent Overpayments for Contracted Legal Services

We found that incorrect billing rates were used to calculate the invoice amount for 1 of the 30 (3.3%) invoices in our sample related to services provided to DPIE, resulting in an overpayment of \$3,863. After reviewing an invoice requested as part of our sample, the Invoice Approver also identified the billing error. The Invoice Approver then reviewed other invoices from the same vendor and identified a second invoice with the same billing rate error. Together, the vendor received overpayments in September 2024 of \$5,208 during the audit scope. Additionally, the second invoice was paid late and incurred a negligible amount of Prompt Payment Act interest (see Finding 2). Accordingly, we question \$5,208 in overpayments that violated the contract's terms governing the expenditure of funds.¹³ See Appendix II for Schedule of Questioned Costs.

In mid-August 2025, FHFA prepared a Demand Letter to recover the overpayments from the vendor. According to FHFA's Oversight Procedures for Invoice and Payment Procedures:

Invoice Approver/COR logs into IPP and reviews invoices to verify that goods and services were received/rendered, *the billed amount meets contract specifications* [emphasis added], the mathematical calculations are correct, the period of performance is correct, the back-up documentation is present and accurate, and the correct contract number, line, shipment, and distribution are identified.

The Invoice Approver told us that she was unaware that billing rate verification was part of her review responsibilities. We found that FHFA's Oversight Procedures for Invoice and Payment Procedures and IPP training materials assign the COR or Invoice Approver responsibility to

¹² The Accounting and Reporting Branch is a branch within FHFA's OCFO.

¹³ We will report the \$5,208 in overpayments as a questioned cost for this Audit Report in the next FHFA Inspector General Semiannual Report to Congress. The Act defines a questioned cost as a cost that is questioned by a federal inspector general because of, among other things, an alleged violation of a provision of a contract governing the expenditure of funds. FHFA management determines whether the questioned cost is sustained.

ensure that the invoice aligns with the terms of the contract. However, neither the procedures nor training materials specifically mention or outline procedures for validating billing rates. FHFA officials acknowledged the procedures and training materials did not specifically address billing rate verification.

We note that instances of overpayments caused by using incorrect billing rates on legal services invoices has been an ongoing concern. As noted in the background section above, OPPr's March 2024 QAR identified similar instances on invoices approved for payment by OGC CORs. FHFA directed its largest legal services vendor to conduct a targeted review of invoices similar to those on which errors had been identified. This review found further instances of incorrect billing rates which were then corrected.¹⁴ OGC also implemented the tiered eReview in November 2024. Even so, FHFA still overpaid a vendor \$5,208 for contracted legal services procured by DPIE. When CORs and Invoice Approvers do not perform due diligence to ensure all contract requirements are adhered to, overpayments may continue to occur resulting in a waste of Agency funds.

Recommendations

We recommend that the Chief Financial Officer:

1. Seek recovery of \$5,208 in overpayments questioned in this report, as appropriate.
2. Update FHFA's invoice review policies and procedures to require CORs and Invoice Approvers to perform a documented review of invoice billing rates (e.g., confirmation against contract or task order tables) prior to payment approval.
3. Update FHFA's invoice review training materials for CORs and Invoice Approvers to include clear step-by-step instructions on how to verify billing rates against contract terms and document verification.
4. Ensure that all staff with invoice approval authority complete the updated training.

Finding 2: FHFA Did Not Comply With Its Procedures Designed to Prevent Future Late Payments

FHFA's Accounting and Reporting Branch personnel did not perform control procedures required by the Oversight Procedures for Invoice and Payment Procedures that were designed to promote compliance with the Federal Prompt Payment Act by preventing future late payments. During review of the Fiscal Service Monthly Metrics reports for September 2024 and

¹⁴ Invoices related to the vendor's review were not within the scope of this audit, and therefore, billing rate corrections were not confirmed.

March 2025, personnel found that FHFA was late paying two legal services invoices (which included one invoice reported in Finding 1). Together, these invoices totaled approximately \$470,342 and incurred a little over \$300 in prompt pay interest. Additionally, the Accounting and Reporting Branch did not obtain the required written statements explaining why the two late payments occurred and setting forth corrective actions to prevent any future late payments. It was not until August 2025, after we requested documentation, that such statements were obtained. The delays were 10 months and 4 months, respectively.

FHFA's procedures did not define timeframes for the Accounting and Reporting Branch to obtain written statements explaining why late payments occurred and corrective actions to prevent any future late payments after notification of the late payment from Fiscal Service. An FHFA official told us that they did not obtain the written statements until after we requested documentation because FHFA's Accounting and Reporting Branch is made up of a small number of staff and one person was out on extended leave. Delayed follow-up increases the risk of repeated late payments and unnecessary interest costs to the Agency.

Recommendations

We recommend that the Chief Financial Officer:

5. Update procedures to set timeframes for OCFO personnel to request (a) a written statement on why an invoice was paid late; and (b) written corrective actions to be taken to prevent any future late payment issues.
6. Assign back-ups for OCFO personnel on leave to ensure that the control procedure to obtain written statements explaining why late payments occurred and corrective actions to be taken to prevent any future late payments is performed timely.

FHFA COMMENTS AND OIG EVALUATION.....

We provided FHFA management an opportunity to review and provide technical comments on a draft of this audit report. We considered those comments in finalizing this report. In a written response, FHFA management agreed with our recommendations and included the following corrective actions, which we evaluated:

Recommendation 1

FHFA management responded that FHFA collected \$5,208 in overpayments in September 2025 on a contract used, controlled, and managed by DPIE, and provided the documentation for the collection to OIG.

Management's corrective action, if implemented as stated, meets the intent of our recommendation.

Recommendation 2

FHFA management responded that OGC's current practice includes the documented review of invoice billing rates, which cover legal service contracts used, controlled, and managed by OGC. By June 30, 2026, OCFO will require the documented review of invoice billing rates for all professional services contracts. OCFO will update its policies and procedures to address the invoice reviews performed by CORs and Invoice Approvers for professional services contracts. The response also noted that overpayment was for a legal services contract administered by DPIE, a division that no longer exists as part of FHFA.

Management's planned corrective actions meet the intent of our recommendation.

Recommendation 3

FHFA management responded that both management of vendor invoices and training of FHFA staff on use of the vendor payment system are provided by the third-party IPP through the FHFA's agreement with its federal service provider. By June 30, 2026, OCFO will provide CORs and Invoice Approvers with step-by-step instructions on how to verify billing rates against contract terms and document verification by system users.

Management's planned corrective action meets the intent of our recommendation.

Recommendation 4

FHFA management responded that OCFO will provide CORs and Invoice Approvers with clear instructions on how to verify billing rates against terms and document verification. By July 31, 2026, OCFO will require CORs and Invoice Approvers to confirm they have reviewed the instructions.

Management's planned corrective action meets the intent of our recommendation.

Recommendation 5

FHFA management responded that in fiscal year 2026, FHFA paid approximately 99.46 percent of its invoices on time and incurred minimal interest penalties. The response proposed an alternative management decision to address the identified deficiency. By June 30, 2026, OCFO will revise its procedures to better align its controls with late payment risk and OCFO resources.

Management's planned corrective action meets the intent of our recommendation.

Recommendation 6

FHFA management responded that FHFA consistently pays its invoices on time and incurs minimal interest penalties. The response proposed an alternative management decision to address the identified deficiency. By June 30, 2026, OCFO will revise its procedures to better align its controls with late payment risk and OCFO resources.

Management's planned corrective action meets the intent of our recommendation.

Overall, we consider FHFA management responsive to the recommendations in this report. These recommendations will remain open until we confirm that corrective actions have been fully implemented. FHFA's written response, in its entirety, is included as Appendix III of this report.

APPENDIX I: METHODOLOGY.....

To accomplish our objective, we performed the following procedures:

- Reviewed Government Accountability Office’s *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014), applicable during the audit scope,¹⁵ and determined that the control activities component of internal control was significant to this objective. We focused on the underlying principles that management should: (1) design control activities to achieve objectives and respond to risks; (2) implement control activities through policies; and (3) design the entity’s information system and related control activities to achieve objectives and respond to risks.
- Reviewed the Federal Acquisition Regulation (FAR) of 2023, the primary regulation for use by all executive agencies in their acquisition of supplies and services with appropriated funds. FHFA is not subject to the FAR, however, it follows the FAR on a voluntary basis, except for flexibilities set forth in its Acquisition Procedures Manual (APM).
- Reviewed the Prompt Payment Act of 2018 (31 U.S.C. chapter 39) which requires federal agencies to pay their bills and vendor invoices on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date.
- Obtained and reviewed the following applicable FHFA policies and procedures to identify internal requirements and controls related to the payment of contracted legal services:
 - FHFA, Policy No. 503, Acquisition Policy (June 27, 2011)
 - FHFA, APMs (effective during April 2024 to March 2025, and updated February 4, 2025)
 - OBFM, Oversight Procedures for Invoice and Payment Procedures (effective during April 2024 to March 2025, and updated July 17, 2024)
 - OGC, Billing Instructions for Outside Law Firms (March 29, 2022)

¹⁵ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) issued in September 2014 was applicable during our audit scope. The 2014 version has been superseded by GAO’s *Standards for Internal Control in the Federal Government* (GAO-25-107721) which was issued in May 2025 and is effective beginning in fiscal year 2026.

- OGC, Process for Litigation Vendor Invoice Review (March 26, 2024)
- Reviewed a prior OIG report to identify findings and recommendations related to the FHFA's controls over contracted legal services to determine its impact, if any, on our audit.
 - OIG, [Audit of FHFA's Design of Procedures and Guidance to Prevent and Reduce Improper Payments](#) (March 11, 2021) (AUD-2021-003)
- Reviewed FHFA's Office of Planning, Performance, and Risk's *Quality Assurance Review for Payment of Legal Expenses* (March 26, 2024) - a report on its targeted quality assurance review (QAR) of the OGC's payment of legal expenses for the period of October 1, 2020, through September 30, 2023, to identify any issues, control weaknesses, or corrective actions relevant to our audit objectives.
- Reviewed Service Level Agreements between FHFA and Fiscal Service for fiscal years 2023, 2024, and 2025 to understand controls and responsibilities of both FHFA and Fiscal Service as it relates to the payment of contracted legal services.
- Reviewed the following Department of the Treasury Office of the Inspector General independent service auditor's report (SOC 1) to gain an understanding of controls pertaining to contracted legal services Invoice Processing Platform (IPP).
 - Report on the Bureau of the Fiscal Service's Description of its Administrative Resource Center Shared Services System and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2023 to June 30, 2024 (October 16, 2024) (OIG-25-001)
 - Report on the Federal Reserve Bank of St. Louis's Description of Its Invoice Processing Platform and on the Suitability of the Design and Operating Effectiveness of Its Controls for the Period July 1, 2023 through June 30, 2024.
- Interviewed FHFA personnel and conducted walkthroughs to gain an understanding of the controls over the payment of contracted legal services. FHFA personnel included Senior Deputy General Counsel, Assistant General Counsel, and Principal Management and Program Analyst from OGC; Supervisory Contract Specialist and Senior Accountant from OCFO; and Supervisory Management Analyst from OPPER. Obtained written responses, as needed, from FHFA personnel to address questions and observations related to our audit testing procedures, to understand the internal controls over payments for contracted legal services and discuss any discrepancies with FHFA management.

- Obtained OCFO-generated reports of the population of contracted legal service invoices paid through IPP during the audit scope. Identified the population of 288 payments for contracted legal services paid through the IPP (totaling \$15,525,135). Performed data reliability tests to ensure completeness and accuracy of the population by comparing the number of transactions and total dollars spent on contracted legal services to an OCFO generated report of all contracted spending during the audit scope. Additionally, we reviewed all vendors and confirmed with the OCFO officials whether certain vendors were contracted legal services that should be considered for the population.
- Selected a nonstatistical, judgmental sample of 30 of the 288 payments for contracted legal services (10.4 percent) totaling \$9,478,132 (61 percent of total amount) for contracted legal services. We designed the sample to include the 10 highest dollar payments, the highest dollar payment from each vendor not represented in the first 10 payments selected (8), and 12 randomly selected payments from the remaining population using a random number generator. The 12 payments were randomly selected to avoid bias and not for the purpose of projecting results to the entire population of contracted legal services invoices. We performed the following for our sample:
 - For each contract on which legal services were sampled, we matched the vendor's name, contract number, unique identifier number, and the COR or Invoice Approver authorized to approve invoices in IPP to the contract.
 - For each selected invoice, we determined whether: the correct contract number was identified on the invoice; the invoice number and disbursement amount in IPP agreed to the invoice; the authorized COR or Invoice Approver documented that the contracted goods or services were received or rendered in IPP; the authorized COR or Invoice Approver approved the invoice for payment in IPP; and that the COR or Invoice Approver's review and approval was timely.
 - For each selected invoice, we reviewed and determined whether: the billed amounts met contract specifications; the invoices' mathematical calculations were correct; the period of performance on the invoices was correct; and whether the invoice amount was within the contract payment ceiling.
- Obtained COR letters and certifications to determine whether each COR assigned to invoices in our sample were designated in writing by the Contracting Officer and maintained appropriate certification during our scope period. Additionally, we determined whether the Invoice Approver was designated as such in the contract.
- Assessed whether COR approval was supported by the OGC tiered eReview process performed by OGC attorneys formally assigned to the matter for litigation vendor invoices, where applicable.

- Reviewed COR or Invoice Approver provided documentation to determine whether the FHFA COR or Invoice Approver monitored the expenditure of funds in relation to the contract or task order ceiling and Invoice Detail Report's provided by OCFO.
- Reviewed evidence of FHFA management's review of the most recent ARC and IPP SOC 1 reports and determined whether control concerns identified in the reports, if any, were addressed.
- Obtained and reviewed Fiscal Services' Monthly Metrics reports issued during the audit scope to identify any late or improper payments on legal services invoices and determine whether FHFA performed its control procedures to prevent future late or improper payments.

We conducted this performance audit from December 2023 to February 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX II: SCHEDULE OF QUESTIONED COSTS

A questioned cost is a cost that is questioned by the auditor because of an audit finding:

(1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable.

Questioned costs identified in this Audit Report will be reported in the next FHFA Inspector General Semiannual Report to Congress.

<u>Recommendation Number</u>	<u>Questioned Cost</u>
Recommendation 1	\$5,208

As discussed in Finding 1, the questioned cost relates to \$5,208 of overpayments made to one vendor, resulting from the use of incorrect billing rates, that violated the contract's terms governing the use of funds.

APPENDIX III: FHFA MANAGEMENT RESPONSE.....

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U.S. FEDERAL HOUSING

MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Edom Aweke, Chief Financial Officer, Office of Chief Financial Officer

SUBJECT: Audit Report: *FHFA's Controls Over Legal Service Payments Were Generally Effective But Did Not Ensure Compliance with All Contractual Requirements*

DATE: February 2, 2026

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Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report (Report). The objective of OIG's audit was to determine whether the Federal Housing Finance Agency (FHFA) implemented effective controls to ensure that payments for legal services used across FHFA were made in accordance with applicable federal laws and regulations, policies and procedures, and contractual requirements. The scope of the audit covered contracted legal services used, controlled, and managed by the Office of General Counsel (OGC), the Division of Housing Mission and Goals (DHMG), and the former Division of Public Interest Examinations (DPIE) during the period of April 1, 2024, to March 31, 2025.

While the Report determined that FHFA's controls over payments for legal services were generally effective, it identified two invoices on a contract used, controlled, and managed by DPIE. The Report addresses instances in which controls on this contract did not effectively ensure compliance with contractual requirements. The Office of the Chief Financial Officer (OCFO) is in the process of enhancing its practices and revising its policies and procedures to address those findings. Accordingly, the Agency agrees with the six recommendations related to the findings.

Recommendation 1: *Seek recovery of \$5,208 in overpayments questioned in this report, as appropriate*

Management Response: FHFA agrees with the recommendation. The Agency collected \$5,208 in overpayments in September 2025 on a contract used, controlled, and managed by DPIE, and provided the documentation for the collection to OIG.

Recommendation 2: *Update FHFA’s invoice review policies and procedures to require CORs and Invoice Approvers to perform a documented review of invoice billing rates (e.g., confirmation against contract or task order tables) prior to payment approval.*

Management Response: FHFA agrees with the recommendation and notes that OGC’s current practice includes the documented review of invoice billing rates, which cover legal service contracts used, controlled, and managed by OGC. By June 30, 2026, OCFO will require the documented review of invoice billing rates for all professional services contracts. OCFO will update its policies and procedures to address the invoice reviews performed by Contracting Officer’s Representatives (CORs) and Invoice Approvers for professional services contracts. Notably, the overpayment was for a legal services contract administered by DPIE, a division that no longer exists as part of FHFA.

Recommendation 3: *Update FHFA’s invoice review training materials for CORs and Invoice Approvers to include clear step-by-step instructions on how to verify billing rates against contract terms and document verification.*

Management Response: FHFA agrees with the recommendation. Both management of vendor invoices and training of FHFA staff on use of the vendor payment system are provided by the third-party Invoice Processing Platform (IPP) through the FHFA’s agreement with its federal service provider. By June 30, 2026, OCFO will provide CORs and Invoice Approvers with step-by-step instructions on how to verify billing rates against contract terms and document verification by system users.

Recommendation 4: *Ensure that all staff with invoice approval authority complete the updated training.*

Management Response: FHFA agrees with the recommendation. As noted above OCFO will provide CORs and Invoice Approvers with clear instructions on how to verify billing rates against contract terms and document verification. By July 31, 2026, OCFO will require CORs and Invoice Approvers to confirm they have reviewed the instructions.

Recommendation 5: *Update procedures to set timeframes for OCFO personnel to request (a) a written statement on why an invoice was paid late; and (b) written corrective actions to be taken to prevent any future late payment issues.*

Management Response: In Fiscal Year 2026, FHFA paid approximately 99.46 percent of its invoices on time and incurred minimal interest penalties.¹ FHFA proposes an alternative action

¹ [*US Federal Housing, FY 2025 Performance and Accountability Report*](#), Financial Summary, Prompt Pay section, page 17.

to address the identified deficiency. By June 30, 2026, OCFO will revise its procedures to better align its controls with late payment risk and OCFO resources.

Recommendation 6: *Assign back-ups for OCFO personnel on leave to ensure that the control procedure to obtain written statements explaining why late payments occurred and corrective actions to be taken to prevent any future late payments is performed timely.*

Management Response: As noted above, FHFA consistently pays its invoices on time and incurs minimal interest penalties. FHFA proposes an alternative action to address the identified deficiency. By June 30, 2026, OCFO will revise its procedures to better align its controls with late payment risk and OCFO resources.

If you have any questions related to this response, please contact Kristin Salzer at Kristin.salzer@fhfa.gov or 202-649-3691.

cc: Toni Harris
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Federal Housing Finance Agency Office of Inspector General

To report potential fraud, waste, abuse, mismanagement, or any other kind of criminal or noncriminal misconduct relative to FHFA's programs or operations:

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